Rural Debt Trap

Why in news?

The All-India Debt and Investment Survey (AIDIS) carried out by National Statistical Office gives an account on the rural credit market in India.

What does the report say?

- **Rural debt** - The average debt per household in rural India is Rs 59,748, nearly half the average debt per household in urban India**.**
- **Incidence of indebtedness (IOI) -** The IOI is 35 % in rural India — 17.8 % of rural households are indebted to institutional credit agencies, 10.2 % to non-institutional agencies and 7 % to both.
- **Rate of interest** - The rate of interest charged on 45 % of institutional debt is between 10-15 % whereas on 44 % of non-institutional debt falls between 20- 25 %.
- **Debt-Asset Ratio (DAR)** - DAR of the bottom 10% asset-owning households in rural India is 39, much higher than the DAR of 2.6 for the top 10 % households.
- **Expenditure** - The top 10 per cent rural households in terms of asset ownership spend most of the debt on farm/non-farm business, whereas the bottom 10 per cent it on household expenditure.

What can be inferred from the report?

- Easy and timely access to formal-sector credit enables households to invest in income-generating activities while non-institutional sources help to meet short-term consumption needs.
- Dependence on institutional sources signifies broadening **financial inclusion** while reliance on non-institutional sources denotes vulnerability and backwardness.
- In non-institutionalised debt, professional and agricultural moneylenders remain the primary sources of credit.
- Access to institutional credit is largely determined by the ability of households to furnish assets as collateral.
- Access to credit is complicated by the interplay of social identities as marginalised social groups have low asset ownership.

- Non-institutional sources have a strong presence in the rural credit market, notwithstanding the high costs involved in borrowing.
- Inadequate access to affordable credit lies at the heart of the rural distress.
- The credit policy needs to be revamped to accommodate the consumption needs of the rural poor and to find alternatives for collateral for rural financial inclusion.

Source: The Indian Express

